non of *general obligations* under section 5136. (See § 250.122.)

(e) Although the Board of Governors has recognized that the pledge of the ''general powers of taxation, including property taxation'' may be indirect as well as direct, with respect to payment of the principal of its Bond Anticipation Notes the State of California does not commit its general taxing powers either directly or indirectly. The principal of such Notes is payable solely from the proceeds of subsequent sale of other securities, which means that the State retires the Notes through the exercise of its borrowing powers as distinct from its taxing powers.

(f) That the general obligation bonds, from the proceeds of whose sale the Notes are expected to be paid, will pledge the State's taxing powers cannot be considered an indirect pledge of that power to secure the Notes, because the pledge of the State's taxing powers attaches to the general obligation bonds only after they are sold and can in no way be utilized for the payment of the Notes. In order for obligations to be secured directly or indirectly by general taxing power, that power must be available for use, if necessary, to provide funds for the required payments of both principal and interest.

(g) The Board of Governors accordingly concludes that California Bond Anticipation Notes do not constitute general obligations within the meaning of section 5136. The Notes, therefore, would not be eligible for underwriting and dealing in by member State banks.

(12 U.S.C. 24, 335)

§ 250.140 Member bank acquisition of stock of another bank.

(a) The Board of Governors has recently considered, in several cases, whether a member bank may lawfully acquire stock of another bank. In some instances, a direct acquisition was involved; in another, the stock was to be purchased by a wholly owned subsidiary of the member bank. In one instance, the bank stock was to be purchased for cash; in others, the consideration was to consist of newly issued shares of stock of the acquiring bank. All of the cases involved acquisition of a majority of the stock of the *subsidiary* bank.

(b) The Board reaffirmed its position, originally taken shortly after enactment of the Banking Act of 1933 (1933 Federal Reserve Bulletin 449), that such acquisitions by member banks are not legally permissible. Section 5136 of the U.S. Revised Statutes (12 U.S.C. 24) forbids a national bank to purchase ''for its own account * * * any shares of stock of any corporation.'' That prohibition is also applicable to State member banks, under section 9 of the Federal Reserve Act (12 U.S.C. 335). Legislative history and judicial interpretations in this field support the view that Congress did not intend to permit national banks or State member banks to acquire, for their own account, the stock of other banks, either directly or through intermediary corporations. The statutory prohibition applies to any voluntary acquisition of the stock of another bank, whether the consideration given for the stock consists of cash, other bank assets, or shares of stock of the acquiring bank.

(c) The Board concluded that such acquisitions would also violate the provisions of section 5155 of the Revised Statutes and section 9 of the Federal Reserve Act (12 U.S.C. 36 and 321) that prohibit the establishment of branches by member banks except under prescribed conditions. Those provisions of law were intended to permit national banks and State member banks to operate additional banking offices only with the prior approval of the Comptroller of the Currency or the Board of Governors, respectively. When one bank owns all or a majority of the stock of another, the offices and resources of the latter are a part of the banking organization owned by, and subject to the control of, the parent bank, despite the existence of separate corporate entities. Consequently, if such acquisitions of stock were permissible, member banks could conduct banking operations through additional offices without obtaining supervisory approval, which would undermine an important regulatory purpose of the Federal statutes relating to multiple-office banking.

(d) This incompatibility with the Federal banking statutes is particularly apparent when the offices of the *subsidiary* bank are situated in places where the acquiring bank may not lawfully establish and maintain direct branches, under applicable State and Federal laws. If a bank in those circumstances could acquire an existing bank or establish a new one, it could effectively circumvent public policy and accomplish indirectly what it could not accomplish directly—namely, ownership and control of banking offices in places (even in another State) where it is forbidden by law to conduct banking operations.

(12 U.S.C. 24, 36, 321, 335)

§ 250.141 Member bank purchase of stock of "operations subsidiaries."

(a) The Board of Governors has reexamined its position that the so-called ''stock-purchase prohibition'' of section 5136 of the Revised Statutes (12 U.S.C. 24), which is made applicable to member State banks by the 20th paragraph of section 9 of the Federal Reserve Act (12 U.S.C. 335), forbids the purchase by a member bank ''for its own account of any shares of stock of any corporation'' (the statutory language), except as specifically permitted by provisions of Federal law or as comprised within the concept of ''such incidental powers as shall be necessary to carry on the business of banking'', referred to in the first sentence of paragraph ''Seventh'' of R.S. 5136.

(b) In 1966 the Board expressed the view that said incidental powers do not permit member banks to purchase stock of ''operations subsidiaries''—that is, organizations designed to serve, in effect, as separately-incorporated departments of the bank, performing, at locations at which the bank is authorized to engage in business, functions that the bank is empowered to perform directly. (See 1966 Federal Reserve Bulletin 1151.)

(c) The Board now considers that the incidental powers clause permits a bank to organize its operations in the manner that it believes best facilitates the performance thereof. One method of organization is through departments; another is through separate incorporation of particular operations. In other words, a wholly owned subsidiary corporation engaged in activities that the bank itself may perform is simply a convenient alternative organizational arrangement.

(d) Reexamination of the apparent purposes and legislative history of the stock-purchase prohibition referred to above has led the Board to conclude that such prohibition should not be interpreted to preclude a member bank from adopting such an organizational arrangement unless its use would be inconsistent with other Federal law, either statutory or judicial.

(e) In view of the relationship between the operation of certain subsidiaries and the branch banking laws, the Board has also reexamined its rulings on what constitutes ''money lent'' for the purposes of section 5155 of the Revised Statutes (12 U.S.C. 36), which provides that ''The term *branch* * * * shall be held to include any branch bank, branch office, branch agency, additional office, or any branch place of business * * * at which deposits are received, or checks paid, or money lent.'' [1]

(f) The Board noted in its 1967 interpretation that offices that are open to the public and staffed by employees of the bank who regularly engage in soliciting borrowers, negotiating terms, and processing applications for loans (so-called *loan production offices*) constitute branches. (1967 Federal Reserve Bulletin 1334.) The Board also noted that later in that year it considered the question whether a bank holding company may acquire the stock of a so-called *mortgage company* on the basis that the company would be engaged in ''furnishing services to or performing services for such bank holding company or its banking subsidiaries'' (the so-called *servicing exemption* of section 4(c)(1)(C) of the Bank Holding Company

[1] In the Board's judgment, the statutory enumeration of three specific functions that establish branch status is not meant to be exclusive but to assure that offices at which any of these functions is performed are regarded as branches by the bank regulatory authorities. In applying the statute the emphasis should be to assure that significant banking functions are made available to the public only at governmentally authorized offices.